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BUREAU OF BUSINESS AND ECONOMIC RESEARCH

College of Business and Public Service

MICHIGAN STATE UNIVERSITY

EAST LANSING

Department Of Urban Planning and Landscape Architecture

The College of Business and Public Service welcomes as its newest addition one of the oldest departments on the campus: Landscape Architecture and Urban Planning. Time was, back in 1865, when its course in Landscape Gardening as a Fine Art was required of all MAC students to give aesthetic sweetening to a technical curriculum. The present action of the State Board of Agriculture recognizes the long-standing fact that professional landscape and urban planning are rightly part of a Division of Public Service.

Although relatively small in numbers, with 176 majors, this department has the largest combined undergraduate and graduate enrollment of any in the country. In Urban Planning it ranks the highest of twenty-three schools offering professional degrees (trailed by Harvard, North Carolina and Pennsylvania, in that order). In Landscape Architecture it tops the nation's twenty-four schools (next are Iowa State, Illinois, California). In fields such as these the demand for trained graduates is such that there are two or three times more jobs available than there are men to fill them.

All staff members are associated with either the American Institute of Planners or the American Society of Landscape Architects. The department head, Professor Harold W. Lautner, also serves the University as its campus planner.

Urban Planning is taught as the application of orderly methods and imaginative skills to the unified physical development of the total urban region. Landscape Architecture is conceived as a design profession analogous to building architecture, concerned with planning of specific areas for the securing of optimum relationships among ground forms, open spaces, buildings, roads, plantings and other elements. Our beautiful campus itself is the best testimony to the utility of such studies.



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"Let your discourse with men of business be short and comprehensive."

(George Washington's *Copybook*).

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A New Director for the

BUREAU OF BUSINESS AND ECONOMIC RESEARCH

The Bureau of Business and Economic Research is particularly pleased to welcome at this time its new Director, Eli P. Cox, Jr. We would be happy to have him under any circumstances, but as he arrived on February 1, we have had a unique three-weeks' opportunity to show a native Texan what Michigan weather can do when it really tries.

Dr. Cox comes to us with a variety of qualifications for the disparate types of work the Bureau undertakes. His professional experience has taken him equally into teaching, governmental economic research and consultation with business.

He was born in Izoro, Texas, and obtained his Bachelor of Science and Master of Science degrees at North Texas State College, and his Ph.D. at the University of Texas. He has taught at both of these institutions, having come to MSU from a position as Professor and Chairman of the Department of Marketing at North Texas.

GETTING IN ON THE ACT

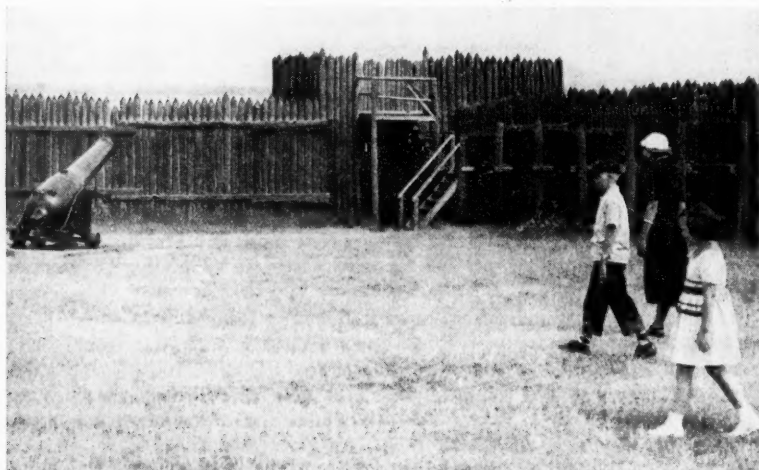
Now that the St. Lawrence Seaway is a certainty, many sections of the country that have been less than avid over the idea would like to tap this great continental artery. Last December the Port of New York Authority asked Congress to authorize a Federal survey of the inland waterway between New York and Montreal, with an eye to possible deepening of it. Vessels of less than six and a half feet draft can at present use this route, running due north and south, and cutting the distance between New York and Montreal by water from a 1,700 Atlantic-and-St. Lawrence trip to 450 miles, up the Hudson River, the Champlain Canal, Lake Champlain and the Richelieu River.

As for Pittsburgh, its dream is more grandiose: a canal between the Ohio River and Lake Erie. George Washington himself thought this would be a good thing, though even a man of his vision would have winced at the present estimated price of such a project: an icy \$1 billion. The Pennsylvania State Planning Board has re-examined this perennial dream and pronounced it impractical "at this time". Back in the 1830's more than one Middle Western state bankrupted itself on a canal bank. Let us be thankful here in Michigan that we already have the Great Lakes and a nearly adequate river to empty them, and do not have to dream of deepening the Mahoning and Beaver Rivers to reach Lake Erie, or working on a canal that has at present only six and a half feet of water in it.



Ghost town. Fayette, on the Garden Peninsula, was booming in the '60s, while the hardwood lasted for the pig iron furnaces. Deserted today, it could be made a focus of attention for visitors to the Upper Peninsula.

(Michigan Historical Commission photograph)



Fort Michilimackinac at Mackinaw City. Though partially reconstructed with WPA funds, this site needs much further research and restoration to make it a worthwhile tourist attraction.

(Michigan Tourist Council photograph)

WHY DON'T WE SELL MICHIGAN HISTORY?

By EUGENE T. PETERSEN*

One of the most provocative articles we have published, this discussion of our failure to exploit the tourist dollar adequately may serve to build a fire under many of the older communities in the state. The opinions expressed are those of the author, of course, but should excite a good deal of agreement among our readers.

Like Caesar and his legions, touring Americans again last year invaded strange communities. They came, they saw, and if they did not conquer, they were conquered to the extent of spending large sums of money, in their fascination with the strangeness that had lured them there. Perhaps in this year of the Mackinac Bridge it is worthwhile to look at some ways in which we can make visitors to our Michigan more aware of its historical heritage. While it is true that considerable good work has been done, we should perhaps go farther in capitalizing on the highlights of our history.

Vacationers are eager to learn. Natives are constantly being asked, "What's your community famous for?" "Did any important people live here?" "What's the history of that old inn over there?" Not only is this curiosity inherent in every tourist, but so also is his desire to become part of the important event or place: "Now this slide shows Martha and me standing on the exact spot where Lee ordered Pickett to make his famous charge at Gettysburg", or "We slept at Valley Forge, and you could just imagine the army camped all around you, and Washington walking through the grounds." Such remarks are familiar to all of us. Americans, presuming on the scepticism of us neighbors back home, spend millions of dollars every year to bring back proof of having been on the Exact Spot: a windshield sticker from Niagara Falls, a replica (probably made

in Japan) of John Wilkes Booth's Deringer that killed Lincoln, a Kodachrome of a Spanish mission in San Diego. Most likely it's two boxfuls of slides to inflict upon guests, who sometimes leave convinced that a few well-chosen words are better than a hundred pictures.

It is only too apparent that other states have found history to be a fine tourist attraction. This year millions of Americans will visit Colonial Williamsburg, the reconstructed capital of 17th century Virginia; Sante Fe, where Spanish Colonial atmosphere and a fine Museum combine to make the visitor feel he is surrounded by the past; and Boston, where every house is presumed to have a history. Tourists will go out of their way to spend hours or days in such places because they are famous historical shrines. It is perhaps superfluous to add that money will change hands with the greatest of ease in the visitors' process of historical enlightenment.

How About Us?

Michigan today is one of the great tourist states of America. Our slogan of *Water Wonderland* recognizes the fact that tourists and water readily combine. Our natural settings are at least as beautiful as any in the great Middle West. All this is important, but perhaps in selling a Wonderland of natural beauties we have nearly overlooked our bountiful historical resources. How many of our million tourists are aware that Michigan history is as old as that of the colonial East? Do any of them know that one of the biggest Indian massacres occurred here? How many out-of-state travellers

*Dr. Petersen is Director of the Michigan Historical Museum, a part of the Michigan Historical Commission.

were enticed off the main highway to visit a historic town that was the scene of a contributing cause of the Civil War? In short, are we doing a good job of selling Michigan history?

Underground Railroad. In 1846 Adam Crosswhite and his family escaped from slavery in Kentucky and headed for Michigan and freedom. They were smuggled over the Underground Railroad to Marshall, where Crosswhite was induced to settle, rather than gaining complete safety in Canada. When a Kentucky sheriff tracked them down the following year and attempted to take them back to slavery, an angry crowd of Marshall residents threw every obstacle in his way and spirited the refugees to Canada. The Kentuckian returned empty-handed and told his story to Henry Clay, who used this episode to persuade Congress to adopt the stringent Fugitive Slave Act, one of the steps toward making the Civil War inevitable.

So much for this bit of history; how can it be sold to the visitor? The Crosswhite cabin could be reconstructed and equipped with furnishings similar to those of the 1840's. In conjunction with it there might be a small museum where banners and buttons bearing the likeness of the negro would be sold. Schools and other groups might put on pageants yearly that would depict this important historical event. Proper advertisement would make Marshall known nationally as the home of Adam Crosswhite, as it is now known for its political history and beautiful homes.

Lots of Blood. Every tourist likes Indians. But how many of our visitors knows that Detroit was the site of the longest siege in Indian history, that during the Pontiac conspiracy?¹ And if you

¹During Pontiac's siege of Detroit there occurred another notable event that has become so obscured by history that the average resident does not know of it. Captain Dalyell had arrived on July 29, 1773, with reinforcements and supplies for the fort. In an attempted night attack upon the Indian camp, he and 250 men were ambushed (they followed the course of present Jefferson Avenue; the Indians were lying in wait at today's Adair Street). In the total surprise of the French forces, Dalyell and 58 others died at Parent's Creek; the site became known as Bloody Run.

like your history bloody (What tourist doesn't?) you could stand on the site of the most famous ball game in history (not excepting Don Larson's perfect game in the 1956 World Series). In 1763 Indians were playing ball outside Fort Michilimackinac (near present-day Mackinaw City) when some Ottawa hit a sort of home run — at least the ball went close to the fence. The braves rushed to the gates of the fort as if to retrieve the ball, dropping their lacrosse racquets and grabbing tomahawks and knives handed them by the waiting squaws. The massacre that followed was one of the worst in American history.

One of the few survivors was Alexander Henry, who was befriended by an Indian and later wrote an account of the episode. It seems strange that in the shadow of the partially reconstructed Fort Michilimackinac there is no Alexander Henry Restaurant or Gift Shop. Could not the tourist shops sell replicas of this famous northwest post or perhaps even of the ball and lacrosse racquets that figured in the fateful day's events?

Phony War Bonnets. Speaking of replicas, where do you find for tourist sale in Michigan reproductions of the common, round, bark-covered houses of our Indians? There are plenty of souvenir tepees, so popular with the Apache and Sioux tribes of the Great Plains and with Hollywood set men, but these were used infrequently if indeed at all by our Chipewas, Ottawas and Potawatomis. Would the real thing be any less saleable than the popular misconception? The ideal Plains Indian reigns supreme in the popular imagination. An Ottawa chief of the present day, when asked why he posed for photographers in a flowing and beautiful Sioux war bonnet when his ancestors got by with one or two feathers, said simply that the tourists expected him to look like an Indian!

No doubt that is one of the problems the merchants of local history have had to face in trying to sell authentic mer-

chandise. But this obstacle must be overcome, for, if our history is unique and different from popular conceptions, so much the better. We can capitalize on that uniqueness, and if we are authentic and honest in what we say and sell, our foundations will be solid.

Revolution at Home. The Revolutionary War is one of the most well-known and interesting historical subjects, and most of us have visited the well-maintained and well-publicized historic shrines in the East. We often think, There is where the United States was born. But do we forget the Northwest Territory? Great Britain did not surrender the land north of the Ohio and south of the Great Lakes simply because it was destined to become part of the new democracy. She gave it up because an important frontier campaign was waged by George Rogers Clark and his army of motley volunteers, who ousted the British from Vincennes and Cahokia and threatened the stronghold at Detroit. In fact, Clark later captured its commandant, Henry Hamilton, who had infuriated the frontiersmen by the practice of buying American scalps from his Indian allies. Maybe that is a part of our history we should keep quiet, but one might admire an enterprising businessman who would make and sell "Hamilton's Scalps" attached to a card telling of this historic episode.*

There are many ways in which Michigan history could be sold. Hotels and motels could carry historically important names that would arouse interest and, incidentally, impress themselves on the memory of patrons. Small museums should be supported by the entire community, since they are a genuine tourist attraction. More restaurants might well feature place mats of local historical sites, and, in cooperation with other businesses, distribute inexpensive bro-

chures calling attention to the community's history.

Restoration and Marking

On a larger scale there should be a program of historical restoration at the Straits. This area could rival Colonial Williamsburg if Forts Michilimackinac, Holmes and Mackinac were reconstructed. To take Fort Mackinac on Mackinac Island, for example, the potentialities of historical restoration and preservation in this scenic wonderland stagger the imagination. A century and a half ago, this Citadel of the Upper Lakes bristled with soldiers and guns — guns to control the traffic through the Straits and soldiers to guard the intrepid fur traders in their bargaining with the natives of the forest. Who can tell of the romance and intrigue of the nearby Clerks' Quarters? Over these counters passed the furs that created America's first millionaire, John Jacob Astor. It's no wonder that Fort Mackinac was a prize worth fighting for, and no freak of history that it changed hands three times from 1780 to 1815. Yet through the years the Fort has been largely undeveloped, and last summer the Clerks' Quarters collapsed into a shambles of masonry and wood.

What can be done? As a start, the Fort museum should have enlightening and accurate displays which portray its dramatic history. Uniforms and guns in lighted cases, together with painstakingly accurate period rooms and dioramas would recapture the historical mood. If there were a young man in a 1780 British uniform standing rigidly at attention near one of the blockhouses, he would probably be not only the most photographed person in the entire Middle West this summer, but the subject of considerable conversation next winter when new vacations are planned. Authentic artillery on the ramparts could watch over a life-size replica of LaSalle's Griffin, the first sailing vessel on the Great Lakes,

*Editor's note: is the writer serious? Is this an outlet for Michigan-made Saran hair and high-impact polyethylene plastic scalps?

anchored peacefully in the harbor of Mackinac Island.²

We have merely suggested some of the ways of tying Michigan's history to the interests of the tourists — and of the residents. Efforts in this direction are actually being made. The Mackinac Island State Park Commission is at present preparing constructive plans for improving its properties. For the past two years the legislature has appropriated funds for the Michigan Historical Commission to begin a comprehensive program of marking historical sites. These aluminum placques

already are finding favor with a historically conscious touring public, and in so doing are performing a real service to every community. But there remains much to be done. Michigan may expect increased competition for the tourist dollar from other states. It should move forward boldly to exploit and dramatize its historical resources. With our new superhighways, travel in and more significantly *through* Michigan becomes increasingly easy. For many years the Pennsylvania Turnpike has been the easiest and fastest road east, yet tourists have not hesitated to turn off for a side trip to Gettysburg. This year the Mackinac Bridge will doubtless be a great tourist attraction in itself, but it will also make it easier to pass rapidly through our rich historical area. Is there going to be anything beside tollgates to bring the tourist's car to a stop in Michigan?

²Robert Cavelier, Sieur de la Salle, was the first to follow the Mississippi to its outlet on the Gulf of Mexico. To provide transportation for the furs he expected to collect in the West, he built the *Griffin* on the banks of the Niagara River near the Falls, in 1679. The vessel, laden with furs, left Green Bay that fall on its return trip, and vanished. Claims of finding the wreck periodically appear in print, but it seems likely that the galliot was lost in a storm off the western end of Manitoulin Island. Some skeletons, 17th century coins and an ancient hull were found there in 1890.

"MICHIGAN MEANS BUSINESS"

The Economic Development Commission's 1958 motto was strikingly presented to a national reading public in a special 22-page section in the January issue of *Fortune*. Headed appropriately by a fine photograph of the new bridge, this section was the fifth and largest of a *Fortune* advertising series sponsored by various states. It combined excellent copy, well-designed layout and handsome pictures to form what has been termed "one of the finest prestige projects of the state".¹ Not only did this material reach the 375,000 covered by the magazine's circulation, but many of the 50,000 reprints have been sent to industrialists contemplating relocation or expansion, inviting their consideration of Michigan in future plans.

¹Reprints can be obtained by writing to: The Economic Development Department, Stevens T. Mason Building, Lansing, Michigan.

INDUSTRIAL ORGANIZATION IN THE SOVIET UNION

By ANDREW GUNDER FRANK*

How does the hierarchy of industrial organization in the Soviet Union control production? Conflicting standards and arbitrary enforcement of authority are powerful weapons, aimed constantly against all levels of management.

At first glance, Soviet industrial organization poses a riddle of paradoxes: it is highly planned, yet it relies on a market; an enterprise is allotted steel and wood to build trucks, yet it produces nuts and bolts and housing for its workers, instead; the manager receives one order from his superior today and a contrary one tomorrow; the manager has sole authority over his enterprise and is himself responsible only to his administrative superior, yet one of his subordinates can cause him difficulties by denouncing him to the Communist Party. One may ask, how can a seemingly so badly organized industrial system work? To answer the question this paper seeks the "logic" which I believe can be found in the apparent disorganization of the Soviet industrial system. The reader is invited to interpret the material presented in this paper in terms of the framework.

Soviet industrial organization provides for the simultaneous achievement of sufficient authority for the Soviet leaders to guide the economy toward Soviet ends as well as to adapt to altering circumstances. The Soviet system is enabled to meet the differing requirements of authority and flexibility because superiors first set high and often conflicting standards for managers and other subordinates but then enforce only some of these standards. The priority among the conflicting standards is ambiguous, and subordinates are free to decide which, if any, of the standards to meet. This freedom

introduces flexibility into the system, yet subordinates remain responsible for meeting all standards, and are held accountable by their superiors for failing to meet any of them. This threat helps to maintain authority. As time passes, superiors set new standards and enforce different existing ones, and subordinates adapt to changing standards and to changing circumstances. This framework may help us interpret the following material about Soviet industrial organization.

Hierarchical Structure

The components and structural features of the Soviet industrial system may be outlined as follows. Producing enterprises form the base of the hierarchical pyramid. Once set up by the state each enterprise, much like an American firm, is a juridical person and enjoys financial autonomy: that is, the enterprise may enter into contracts with other enterprises and agencies, may be sued in court, and may itself determine the use of its capital. Each enterprise is, according to the Soviet principle of one-man rule, run by a manager who alone is formally responsible to his superiors for the enterprise and its employees. The manager occupies the bottom rung of each of the several hierarchies.

Formally, the most important hierarchy is the administrative bureaucracy of Soviet industry. It is typically composed of four levels of line agencies: enterprise, *glavk*, ministry, and Council of Ministers. One-man rule prevails in each of these except the highest one, and each has various staff agencies (planning, accounting, etc.).

*Dr. Frank is Lecturer in Economics, MSU. Based on the author's article "The Organization of Economic Activity in the Soviet Union" from *Weltwirtschaftliches Archiv*, Band 78, Heft 1, 1957, pp. 104-156 and on a paper "Conflicting Standards and Selective Enforcement: A Model of Organization".

The Communist Party. Other hierarchies also penetrate the enterprise. Principal among these is the Communist Party. Increasingly, managers are becoming members of the Party, and larger enterprises usually have a party cell among their workers. Similarly, the Ministry of State Control and the courts, with the aid of the public prosecutor's office, have agents who, although not members of the enterprise, reach into the enterprise; at the same time, the chief accountant is supposed to be directly responsible to agents outside the enterprise. Other agencies, such as the State Bank, the Unions, and the Press provide channels of communication into and out of the enterprise. These hierarchies also contain various levels. All of these hierarchies are, for practical purposes, fused in the same individuals at the top. Thus, in a sense, enterprises and top officials are both members of several hierarchies which provide differently routed channels of communication between them. In the ensuing discussion it will be convenient to disregard the intermediary levels and to compress the hierarchies into two levels only: that of subordinates (enterprise manager) and that of superiors (all others).

A Multiplicity of Standards

Various superiors set a multitude of standards for the manager in the form of long range plans he is to meet, daily directives he is to follow, rules of operation he is to abide by, non-explicit wishes he is to satisfy, etc. Pressure from peers or subordinates may be regarded as a standard if the manager's disregard thereof also renders him unable to meet a superior's standard, thus exposing himself to criticism from above. Thus, the Soviet manager may be likened to the branch or division manager of a corporation like General Motors.

A major set of standards, or limits to the manager's discretion, is provided by the market in which he operates and by the rules of operation, for compliance with which he can be held accountable.

The Soviet industrial enterprise must purchase its materials, labor, and often, working capital, and it must sell its products on the market. The enterprise's relations with its suppliers and customers are governed by contracts entered into by the enterprise, which are enforceable by law. The implicit rules of the market and the explicit rules of his superiors charge the manager with producing at the point of minimum cost and maximum unplanned profit.¹

The administrative bureaucracy sets another major group of standards. Superiors establish five year, one year, and quarterly plans for the enterprise and send down countless directives to the manager to amplify, modify, or counteract prior plans and directives. The directives may cover almost any subject, but they typically concern the following: type, quantity, quality, and assortment of production to be attained, amount of labor to be used, wages to be paid, and production norm for workers to achieve; maximum amount of certain scarce materials the enterprise will be legally permitted to purchase; maximum per unit cost, or percentage of cost reduction, that is to be attained. It should be noted that the standards set even by the formal set of directives of only one hierarchical channel are always difficult to achieve relative to possibilities. Frequently they are mutually incompatible as well. Therefore, although the directives are not disregarded, they do not by any means receive full compliance; labor use and wage expenditures in Soviet industry, for instance, typically far exceed planned levels.

Another set of standards may be grouped under the rubrics of priorities, campaigns, and socialist competition. The Communist Party is likely to take a particularly strong hand in setting and enforcing these standards. From time to time more or less well defined orders of

¹Analyses of the Soviet enterprise's market operations may be found in D. Granick, *op. cit.*; Franklyn Holzman, *Soviet Taxation*, Cambridge, Harvard U. Press, 1955; as well as in the author's contribution to Hurwicz (ed.) (*op. cit.*).

priority are superimposed on already existing priorities, as well as on contractual and other arrangements to which existing standards have given rise. Similarly, the Communist Party frequently organizes campaigns aimed to encourage enterprises to meet certain new standards or to meet old ones better; and it offers special awards for successful participation. Socialist competition, generally sponsored by the Party or by unions, is organized rivalry between similarly situated production units to attain specified goals.

Competing Standards. Still other implicit, and often competing, standards arise through pressure from all sorts of parties interested in the conduct of the enterprise and its manager. Subordinates and unions make demands; the press criticizes and publicizes; the local community exerts various pressures; suppliers and customers establish informal expectations. These informal pressures are the result of needs and desires of the people with whom the manager must work, trade, and live. They constitute standards of which the manager must take cognizance, pressures to which he must adjust, in order to maintain such relations with his 'working community' as will permit him to meet standards directly set and enforceable by his superiors. At the same time, the pressures may be regarded as standards for the system as a whole, because the system must adjust to the needs and desires of the manager's 'working community'. But these adjustments cannot be handled by centralized directives. Evaluation of performance and the enforcement of existing standards may serve to set additional standards, or at least to alter the emphasis among existing ones.

Incentives. The standards are rendered personally effective to the manager through the system of incentives. The manager's economic, political, and social status is tied to his performance—in meeting the many standards—in various ways. Fifty percent and more of his pay is frequently made up of bonuses and pay in kind, such as improved hous-

ing. The bonuses in turn are tied to indices of plan fulfillment and overfulfillment, profitability, cost reduction, and performance according to other standards. A small percentage of 'planned' profits and a large percentage of 'unplanned' profits is allocated to a so-called 'director's fund' for expenditure at the manager's discretion on the welfare of the enterprise and its workers. Additions to, and expenditures from, the director's fund augment the manager's prestige and enhance his capacity to procure cooperation from his co-workers in meeting standards. Managers are appointed to their jobs by the ministries, frequently on the advice of the Communist Party. Upward mobility to better jobs and higher positions is tied to overall performance in the manager's current position, as evaluated by his superiors in various hierarchies. At the same time, poor performance may bring punishment in the form of reprimands, fines, movement to a position lower on the ladder of success, removal from positions of responsibility, criminal prosecution and sentence, expulsion from the Communist Party, and general public disapproval. The ever-present possibility of review, based on performance in accordance with any standard, keeps all standards continuously tied into the manager's incentive system.

Multiplicity of standards contributes both to maintenance of authority and to provision for flexibility. Establishment and maintenance of institutions and rules, issuance of plans and directives, announcement of priorities and campaigns, all bring superiors' wishes to the attention of subordinates. Dissemination of this information is one element of the exercise of authority. Compliance is insured by selective enforcement. Flexibility is provided by the opportunity afforded to superiors to add and alter standards at will, issuing new directives, changing priorities, etc. Flexibility also results from the large effective range of manager discretion which mutually incompatible limits to direction entail.

Methods

Enterprise and manager adjustment to the manifold pressures of multiple and conflicting standards may conveniently be summarized by (a) production, and (b) provision for survival of the organization. I shall discuss survival provisions only.

A recent study distinguishes three 'principles of management' which summarize 'survival'-oriented managerial behavior: 1) providing for a safety factor; 2) simulation, or feigning the meeting of standards; and 3) *blat*, or the use of personal influence to obtain favors.²

Managers seek to 'provide for a safety factor' in order to reduce the pressure on their resources that high and conflicting standards entail. A typical method used by managers is to get superiors to set lower production standards. Managers understate the enterprise's productive capacity and overstate its need for funds and materials when supplying superiors with the information on which the latter are dependent for their planning. Stockpiling of scarce materials for use either in future production, or in trade for other needed materials, is widespread. Sometimes managers prefer insolvency due to non-payment of debts, which involves bank supervision of enterprise activities or 'receivership', to the reduction in their working capital which payment of the debts would entail. These safety measures may be regarded as managerial attempts to prepare themselves for possible future eventualities, new standards, or reduced ability to meet existing standards. In a system of multiple standards these eventualities are expected, although their precise nature cannot be foreseen.

Simulated Performance. Precious opportunity to meet one standard may often be gained by merely simulating or feigning performance on another standard. Since many standards are announced in

terms of formal requirements, it is sometimes possible to comply only with the letter but not with the spirit of a standard. Thus, a profit standard can sometimes be met by overproducing profitable goods but underproducing unprofitable ones; or an output standard can be met by reducing the quality of the product.

Blat, a variety of informal relations such as those now widely recognized in most social systems, has become indispensable for the organization of Soviet industry. *Blat*, or personal influence, oils the wheels of the informal procurement system. Its importance is attested to by the fact that many enterprises maintain a full-time or part-time specialist in *blat*, called a *tolkach*, or pusher, who represents one or more enterprises and uses his influence with suppliers and potential suppliers. The *tolkach's* function in a seller's market may be likened to that of the salesman in a buyer's market. Similar informal relations, called 'family relations' by the Soviets, tie a manager of one enterprise to those of other enterprises — to officials in other hierarchies; frequently, to some of his subordinates and superiors; and to members of his 'working community' in general. 'Family relations' organize necessary activities which cannot be, or are not, provided for by the formal system of standards; and they permit managers some room to follow a 'let sleeping dogs lie' policy by permitting 'family members' to present a common front against outside criticism.

Each manager resorts to these adjustments primarily to increase the adaptability of his own enterprise to the pressure that conflict among standards produces. But more importantly these managerial adjustments increase the flexibility of the system as a whole. Managerial provision for a safety factor introduces elasticity of organization into the system which cannot well be provided formally. Simulation enhances managerial capacity to meet standards which he considers more important, at the cost of performance on standards which he deems less important without causing interference with the

²Joseph Berliner, *The Soviet Industrial Enterprise*; Cambridge, Harvard University Press (soon to be published).

working principles of the system. *Blat* permits finer adjustments in material usage to existing conditions than administrative directives could achieve, and thus increase the likelihood of proper use of materials which might otherwise remain unused or less well used. In each case the use of managerial discretion involves decentralized decisions that permit better adaptation to circumstances than might occur if the decisions were centrally made. Frequently, the adaptation is the result of the unimpeded use of managerial initiative.

Evaluation and Enforcement. Superiors in all hierarchies may evaluate performance and enforce standards. The administrative bureaucracy provides for internal checks and controls on the performance of its subordinates, and it appoints managers to, and removes them from, their jobs. The Ministry of State Control maintains agents in the field who report to the Council of Ministers on performance in any and all of the lower levels of the bureaucracy. The State Bank can maintain checks on enterprise performance since it handles enterprise accounts and extends them short term credit. The public prosecutor's office investigates and, if it wishes, takes to court charges involving violations of law. The press investigates and publicizes misconduct on the part of managers, often at the initiative of their subordinates. The chief accountant of each enterprise is appointed directly by the manager's superior (the *glavk*) and is charged to report financial irregularities to that superior. The influence of the Communist Party is well known. Managers who are members of the Party as well as of the bureaucracy are directly subject to Party discipline. Also, Party channels of communication are kept open for criticism by the manager's subordinates and others; party rewards and punishments are frequently more important than those of the bureaucracy itself. In exercising their power to evaluate and enforce, superiors frequently bypass intermediate hierarch-

ical levels and reach directly into the enterprise.

Evaluation, and particularly enforcement, by superiors are, nonetheless, highly selective, both in terms of the standards enforced and the subordinates picked. It is noteworthy that all of the methods of adjustment discussed so far formally involve greater or lesser degrees of illegality. Yet these methods are used widely and they receive predominant official sanction and even laws, in order to satisfy others. Formally illegal conduct which serves important functions is socially legitimized. Enforcement of standards is even more selective than review of performance. For instance, only a small part of complaints received are investigated by the public prosecutor and only an infinitesimal part of those are taken to court. The following example, one of many possible ones, is illustrative:

Over many years, the Magnitogorsk firm had violated its financial plan and the state laws. It had accumulated huge debts to suppliers because its funds were tied up in illegal capital construction and in supplying consumers' goods to its workers. It had given non-existent items as 'security' for loans from the State Bank. Yet, although these conditions were exposed in a national magazine, the firm's director was still retained at his post, and in less than two years was given the second highest post in all Heavy Industry. The reason was clear: on the whole, his management had been successful.³

Commenting on a similar situation, another writer remarks:

The facts suggest that the managers of the two corporations felt remarkably free to make their own decisions in matters of great concern involving thousands of rubles of expense. While they were disciplined for their action (in court) it may be presumed that they acted as they did because the general temper of the community at that time permitted such action.⁴

³Reported in D. Granick, *op. cit.*, pp. 151-152.

⁴J. N. Hazard, *Law and Social Change in the USSR*; Toronto, The Carswell Company, Ltd., 1953; pp. 58-59.

Evaluation, Enforcement and Review

Evaluation and enforcement do take place, and more important, the possibility of review remains ever present. Systematically unable to review the entire performance of subordinates, superiors act as the occasion demands. They review on their own initiative as well as at the suggestion of others. All standards cannot be simultaneously enforced on one person because they impose conflicting demands on him. Also, frequent attempts at strict enforcement would make the previously discussed adjustments impossible and it would render the system as a whole unworkable. Consequently, managers and other subordinates are judged on 'overall' performance, that is, in accordance with some priority among standards. However, superiors in the administrative hierarchy need not assess the priorities among standards in the same way as superiors in the Communist Party; nor need a particular superior maintain his priority ranking constant over a period of time; nor is a superior prohibited from invoking any existing standard at any time. The subordinate's job is to assess, as best he can, the future nature of these priorities and thereby to reduce the likelihood of serious reprimand. The fact remains that each subordinate has almost invariably failed to meet some standards — missed some output target, infringed some administrative rule, broken some law — and is consequently always in peril of reprimand. If

the manager subsequently finds, through reprimand, or worse, that he has misjudged the relevant priority among standards, he is expected to engage in self-criticism and to confess the errors in his management.

Selective evaluation and enforcement provide the key to this kind of organization. Selectivity makes maintenance of conflict among standards operationally feasible. By condoning discretion, selectivity permits that flexibility which is the result of decentralized adaptation to circumstance. By posing an ever-present threat, selectivity stimulates initiative such as that illustrated by *blat*. Selective sanction or approval, such as that illustrated by the fate of the manager of Magnitogorsk who was promoted, and that of the managers in the second quotation, who were reprimanded, aid subordinates to determine which standards are more important than others. Selective evaluation and enforcement maintain authority by posing the continual threat of review, as was impressed on the two managers who 'acted as they did because the general temper of the community at that time permitted such action'. Flexibility is also enhanced by multiple hierarchies, such as the Press and the Party, and selectivity in other ways permits decentralized decisions; these factors provide for criticism and demands for review of managerial conduct from one's peers and subordinates. Yet they also enhance authority because they leave the evaluation of criticized performance to superiors.

THE INDUSTRIAL RELATIONS EXECUTIVE AND THE FUTURE OF MANAGEMENT

By ROBERT E. DRURY*

In a rapidly changing industrial situation, what is the role of the industrial relations executive of a firm? Management's handling of its greatest problem, the worker, will depend largely upon the vision and competence of its industrial relations department.

A couple of years ago the American Management Association queried a number of chief executives on the subject of industrial relations. The questions were similar to these:

Why do you have an Industrial Relations manager?

What do you consider his important jobs?

Will these jobs grow in importance?

What training and qualifications should the manager have?

The answers to the poll are difficult to categorize, but some general attitudes emerge. With the thought that they may aid in the problem of what management expects of Industrial Relations, I will try to summarize them here.

The chief executives indicated that they recognize the personnel function of a business as a very important activity; they mentioned such tasks as liaison with unions, bringing the employees' viewpoint to management, and assembling the myriad personnel functions under one administration. According to the poll, chief executives usually consider the Industrial Relations executive a member of top management who in some cases participates in determining managerial policies and over-all company goals. Mention was made of supervisory or management training and communications as being of high importance in Industrial Relations. Not much stress was placed on employee services or benefits.

The training specified for Industrial Relations executives covered everything

from psychology to operating experience — unfortunately legal training did not seem to be regarded as very necessary. The qualifications mentioned by the chief executives included ability to work with people, ability to be analytical, and, naturally, knowledge of Industrial Relations practices and techniques. It is remarkable how these qualifications could apply to the manager of almost any division of an enterprise.

As to whether the Industrial Relations function is a good stepping-off position toward other management jobs, opinion was divided, leaving unanswered the often-raised question of where the Industrial Relations executive is going in the enterprise. Some consolation can be gained from the fact that generally the chief executives felt that Industrial Relations was growing in importance relative to other management functions.

Another interesting sidelight revealed by the American Management Association surveys is that while the Industrial Relations executive customarily reports to the chief executive officer, his salary is at the lower end of the functions that rate such a status.

Lack of Uniformity

As there is so little uniformity of thinking concerning the Industrial Relations function, it is difficult to write of it without being swayed by personal thoughts (colored as they are by the fact that my industrial background is in the Industrial Relations field). I doubt that one could get any two managers to agree on just what they expect of their Industrial Relations function; this view is supported by the acknowledged lack of uni-

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formity in the scope and practice of Industrial Relations departments.

In *The Practice of Management*, a book highly regarded in management circles, and to be commended to the Industrial Relations man who wishes to concern himself with more than the immediate matters of personnel, Peter Drucker states on page 274: "Everything we know today about personnel administration was known by the early twenties, everything we practice was practiced then. There have been refinements but little else." Drucker adds that union relations is the only new field in personnel administration. Rather than disputing with Mr. Drucker, I am inclined to think that his words were intended to be thought-provoking, a process which sometimes gets neglected in management.

Operator or Executive. Too often the Industrial Relations practitioner, while regarding himself as a staff member, assumes the role of an operating man. This can come about through the fact that the original concept of personnel concerned its so-called "bread-and-butter" activities. I am, of course, referring to employment, safety and pension, suggestion systems, etc. Or this operating concept of Industrial Relations can result from the "fire-fighting" role in which the Industrial Relations executive often finds himself, whether of his own volition or not. There are occasions when the supervisory group gets itself into a situation that disturbs management to the extent that they have the staff department take on the actual function. I have seen instances of disciplinary authority being removed from the operating people and given to the Industrial Relations department. This was brought about by poor supervisory performances; the remedy seems to be to improve that performance with the assistance of the staff.

Management expects the effective, creative staff man to focus his attention on the operating managers, rather than exclusively on the workers. He must look at operating problems in broad

terms, while remaining thoroughly competent in his own field. None of the typical "bread-and-butter" personnel functions has a major impact on the business. They are necessary (though sometimes unpleasant) and must be competently performed in order to justify the expenditure involved. It is estimated that the training investment in a rank-and-file job is \$500; turnover, based on loss of one out of every three employees hired, costs \$150; capital investment depreciation is \$450 and fringe benefits \$740—or, if added to a salary of \$3,000, the yearly cost of such a job becomes \$4,840. It is clear that management will continue to expect personnel performance in these fields commensurate with this expenditure above the base salary.

These bread-and-butter functions, however, do not add up to managing people or to the management status customarily afforded Industrial Relations today. Actually, these functions sometimes lead to a preoccupation that keeps the personnel department away from the enterprise's most important resource—its managers. As a result we see the Industrial Relations executive whose role begins and ends with a legalistic interpretation of the union contract and who never looks beyond the general manager or the grievance committee to see all the human resources involved in the enterprise. With a proper line-staff relationship, the personnel department can operate more and more in the area proper to the first two jobs of Industrial Relations—advising operating management and diagnosing and prescribing for the stability or morale of the organization as an effective team.

The Prime Responsibility

Acquiring, developing and maintaining an effective work force is the responsibility of all members of management, whether they be line or staff. If we think of personnel administration as the application of all our knowledge of people and management to create this effective work force, then it becomes appar-

ent that the staff function of personnel administration greatly transcends the traditional functions we have discussed. For that reason the Industrial Relations executive can become truly a member of top management. This is much different from the hurried elevation into the councils of management that the Industrial Relations man received after the enterprise first found itself dealing with collective organizations of employees. Such a boost could be better characterized as a reward for fire-fighting tactics than as the substantial permanent recognition sought for.

Growing willingness to budget increased amounts for the Industrial Relations function indicates that the managers of the enterprise are willing to equip their Industrial Relations executive to do an effective job. I note that according to the Industrial Relations Center of the University of Minnesota the average firm's Industrial Relations cost has risen from \$48.59 per employee per year in 1952 to \$71.47 in 1955 and to \$76.88 in 1956, an increase of 7.6% in the last year mentioned.

While the manager probably does not know just what he wants from his Industrial Relations department, I think he knows the results he wants. One of the things he expects is a definition of what is involved in creating an effective work force, and what activities of Industrial Relations contribute to attaining it.

It has become evident, in the above discussion, that the corporate atmosphere in which the Industrial Relations executive operates is, while sometimes difficult, an extremely favorable one. Certainly it is a rare corporate function which has the opportunity to help formulate its own role in management!

What Keeps Managers Awake Nights?

While from time to time a steel shortage when production is expanding, a drop in the price of copper when inventories are high, a cool summer, a hot winter and the like may cause a manager to lose some sleep, generally what keeps the

manager awake at night is — human beings. It is to this area that I direct your attention; what management needs is help in creating an efficient work force through aiding all of the managers of the enterprise.

Management today is plagued with a shortage of managers — with the result that the caliber of our managers and their performance tend to slip. We have been through an era of specialization of managers: all of our academic and practical training was for years geared toward creating specialists. Today we are busily occupied with taking these specialists and trying to cram generalized training into their education to fill our need for general managers.

The Nature of Future Problems

Let us look at some of the problems that are forecast for the future of business. I think that as we do we will see the role of Industrial Relations in these problems, and thus we will determine what management expects of Industrial Relations in the future.

1. It is forecast that our gross national product will increase tremendously: Labor Secretary Mitchell predicts a 40% increase by 1965 (\$560 billion). Today we have shortages of chemists, engineers and other scientists. U.S. Labor Department estimates of unfilled demands for skilled workers jumped 17% over last year. These shortages are typical of those that must be expected in connection with many other types of workers. Management looks to its Industrial Relations function to prepare for the burden that will be placed upon any company that plans to retain its place in the industrial picture.

2. The greatest population boom in our history is upon us with a predicted 193 million by 1965. Industrial resourcefulness must support this increased population with an insufficient work force. Management looks to the Industrial Relations function to assist in creating the proper skills and potential of the available work force. An added problem is

the mobility of our population, for some 100 million Americans have made a significant move, a change of location, since World War II started. This means that the work force is not only insufficient but mobile.

3. Mechanization, or automation, will increase in the factories and will mushroom in offices, involving new methods and new equipment. This will create new problems in all the areas that management has entrusted to the Industrial Relations executive — such as training, pay scales, safety.

4. Unions have vowed that they will seek increase in compensation that will make their past bargaining achievements appear insignificant. Current developments on the union scene, whatever direction they may take, are sure to mean new complexities caused by governmental regulation, new union internal and political alignments with the resulting disruption of the union relation in the management involved, new industry bargaining groups, among many possible results. And let us not forget that the sought-for increases in compensation are likely to be exotic in form as opposed to the old-fashioned rate increase that was implemented by a memo to the Payroll Department after the Agreement was signed. Naturally in this organized labor area management will expect Industrial Relations to be well equipped to handle the problem or to advise line management about it. I do not depreciate the labor relations role of the Industrial Relations executive; certainly it calls for skill and finesse comparable to any corporate function. Yet proper attention to the job of acquiring, developing and maintaining an effective work force, with both organized and unorganized groups of employees, is, I feel, the proper remedy for the labor relations situation in which we often find ourselves. It is a great comfort to management to have an Industrial Relations executive who plans ahead in his labor relations activities as well as one who handles the interpretation and administration of union contracts in a skill-

ful manner. Naturally, we want the Industrial Relations department to insure uniform practices in the plant, to enforce proper discipline, to process grievances and arbitration cases successfully — in short, to assist the company managers in obtaining good management-labor relations.

5. As for the problems of future executives, both specialists and general management men will be in short supply. Ralph Cordiner, President of General Electric, recently stated, "Not customers, not products, not plants, not money, but managers may be the limit of G.E.'s growth." Management's job will not become easier, and the area of the manager will become both broader and more complex. The Industrial Relations share in the preparation of our executives for their roles is readily apparent.

All-Important Morale. Human relations will continue to be management's most challenging and most frustrating job. An efficient work force must by necessity be a work force of good morale. The problem of creating and maintaining good morale will certainly not become easier. The necessity for increased production, improved quality and lower costs in order for the enterprise to remain healthy is a matter for the manager, but the Industrial Relations staff will, in my opinion, be expected not only to continue the role it has been assigned, but to bear a major share of the burden in areas where our problems will become more difficult.

Summary

In the future, industry is faced with five major developments in our economy.

1. An expansion of our gross national product.
2. A population boom.
3. Increased mechanization.
4. A volatile union situation.
5. Shortage of executives and increased problems in human relations.

The role or responsibility of the Industrial Relations executive is not at all clear, for it does not mean the same thing to all managers. The function has had a phenomenal growth. While the "bread-and-butter" items will always be involved and indeed are increasing, more basic functions are emerging.

The impact of our changing times upon the management of an enterprise will offer both a challenge and an opportunity to the Industrial Relations execu-

tive. Specifically the opportunity is that of determining where the enterprise is going and of facilitating management's efforts to arrive at that point.

The manager of an enterprise recognizes that his greatest problem is human beings. Accordingly he looks to his Industrial Relations executive to equip management to cope with this problem. The typical Industrial Relations executive is striving to cooperate in this respect.

THE BUSINESSMAN AND THE MICHIGAN STATE UNIVERSITY LIBRARY

When the Michigan businessman is on the MSU campus for a conference or a visit, he should plan to include the Library in his tour. It is always at his disposal, whether he is interested in casual reading or something more serious. In the Business room on the second floor he will find information about the financial world and material on such subjects as accounting, real estate, marketing and related fields. Among specific works are the business services of Moody's, Standard and Poor's, Commerce Clearing House and Prentice Hall.

If you are not able to use our facilities on the spot, through the interlibrary loan system we are able to make many books available to you at home. Visit your local public library; if it is unable to meet your needs, it can request books directly from us. All possible orders are filled; certain material, however (such as periodicals and books needed for assigned reading for courses), is not available. Another of our services, obtainable through the interlibrary loan system, is reference work. If your public library cannot answer your question, send us the inquiry and we will do our best. Questions we have handled have involved matters as varied as community data, statistics on agriculture, and lists of current publications on investments, to name just a few.

Whether you mail us a question or drop in and consult our Business library, our concern is to assist you.

William S. Stoddard

ANOTHER ANNIVERSARY



A well-documented claim to distinction as a notable first in our industrial history is advanced by American glass-makers. The first skilled industry in American history is apparently the making of glass. A thatch-roofed plant for its manufacture was built on the shores of the James River in 1608 by the Virginia colonists. Plans for this establishment had been carefully made when the colony was being projected,

and the purpose of setting up this craft had been not only to supply the colony, but to provide merchandise for the mother country as well.

The American Glassware Association and the Glass Containers Manufacturers Institute are making this anniversary known to all of us through their triangular seal to be used in advertising and on packages, and even on metered mail. The visitor to historical sites will, moreover, be able to see the rebuilt factory, identical in location, material and design, when he visits Jamestown and Williamsburg.

FOREIGN BUSINESS APPLICATION OF COMPUTERS

Readers will recall Doctor B. C. Lemke's article by the above name, in *Business Topics* for March, 1957. This has aroused wide interest here and abroad, having been reprinted in the *Journal of Machine Accounting Systems and Management*, February, 1958. A revision of it also appeared in *The Accountant* (England), and in addition it has been cited in several British and Commonwealth publications.

CHANGING PATTERNS IN HOURS OF WORK: UTOPIA AND POSSIBLE TRAGEDY

By CURTIS ALLER*

The author makes an unexpected evaluation of the arguments for and against the shorter working day and working week. This judicious study will assist the reader to appraise both sides of the question.

After twenty-five years of relative quiet, one of our great historical issues, the proper length of the work day and work week, is once again pushing itself to the center of the stage. Economists, businessmen, labor leaders and one important political figure have been predicting that we are on the verge of another historic reduction in the weekly hours of work. The popular press has rushed in with feature articles ranging all the way from optimistic titles such as "Utopia 1976" to a more somber query, "Are You Ready for a Four Day Week?"

It is obvious, I think, that our current interest in the subject is a response to the signs of a growing determination by the labor movement to make these favorable predictions as to the future a current reality. Already some unions, the Typographers and the Ladies Garment Workers, for example, have secured a 35 to 37½ hour weekly schedule for most of their members. In the spring of 1956 the carpenters in Northern California went on strike for the seven-hour day, but finally settled for more money. Other unions are now on record as favoring a shorter work week. The most publicized and possibly the most significant of these is the Auto Workers. This union has placed the shorter work week at the top of its 1958 bargaining agenda and the subsequent comments of Walter Reuther point towards the four-day week as the Union's ultimate objective.¹

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This article is based on a speech given before the U.S. Chamber of Commerce Managers Seminar, at Kellogg Center, December 12, 1958.

In support of this position the UAW has presented the following argument:

The age of automation makes it possible to achieve both greater abundance and greater leisure for the employment of that abundance. In fact, we are advancing so rapidly in learning to produce more goods with fewer hours of work, while our national — and particularly our business — leadership learns so slowly to distribute properly what we can produce, that our only real choice may lie in the form in which we shall take our increased leisure. The only realistic alternative to the involuntary and barren idleness of widespread unemployment is the voluntary and constructive leisure that flows from a rational reduction in the hours of work.

To minimize the dangers of unemployment and to obtain more free time for a richer and fuller life for our members and their families are the purposes behind our demand for the shorter work week.²

As I have indicated, many outsiders not directly connected with collective bargaining suggest that this position of the UAW is in line with the coming trend. There are important differences

¹In January 1958 this union formally abandoned the shorter hours demand and substituted a profit-sharing proposal. Yet news reports of the special convention (Business Week, February 1, 1958, pp. 100-107) and subsequent comments by Leonard Woodcock, UAW Vice President (Wall Street Journal, February 17, 1958) suggest that the change in position may be more apparent than real. At this stage of pre-negotiation maneuvering the union is maintaining flexibility and outsiders probably will not know until the negotiations close whether shorter hours will be an important issue.

²Report of UAW President Walter P. Reuther, (16th Constitutional Convention, April 7-12, 1957, International Union, United Automobile, Aircraft and Agricultural Implement Workers of America, AFL-CIO), page 3.

among these observers as to the magnitude and timing of further reductions in hours of work, but the most popular predictions are those which forecast a standard 35 hour week by about 1965 and a 30 hour week by 1980.³ Certainly this is a promise of at least a partial Utopia.

A Healthy Skepticism

I long ago learned that when the experts agree some healthy skepticism is in order and it is in this vein that I approach this subject. My remarks will be focused upon three questions:

What is the historical record and what insights may it offer as to the future?

What is the probable impact of current developments upon hours of work?

What is the nature of the choice before us?

In other words, what are the implications that must be kept clearly in mind as we make a choice between work and leisure in the coming generation? In this connection I want to advance some unorthodox observations concerning factors which I think are being ignored in the current discussion.

Most of these forecasts are based upon a simple projection of historical trends. This in turn requires acceptance of two assumptions regarding the future which are drawn from the past: it is usually assumed that our man-hour productivity will continue to improve as it has in the past at about the rate of 2½ per cent a year. It is further assumed that we will want to divide this annual gain at about 60 per cent for greater income and 40 per cent for greater leisure. These are proportions that have prevailed for the last 30 years. Put another way this would mean that we should expect hours of work to decline about three hours every decade.

Why a Shorter Work Week? Now there is every reason for treating fore-

casts such as these with a good deal of caution. First, there is nothing fixed, immutable, or controlling about these past tendencies which ensures their continuance in the future. This should be immediately evident from a little reflection on the factors at work in past reductions in hours of work. The movement for the 10 hour day, then the eight hour day and finally the five day week received much of its emotional support from a combination of appeals. It was argued, and considerable evidence could be marshalled in support of it, that the longer hours impaired the health and safety of the workers. It was also contended that the longer hours prevented the worker from fulfilling satisfactorily his family and citizenship obligations. At various times and particularly in the thirties the shorter work week was advanced as a cure for general unemployment. The Fair Labor Standards Act incorporated the 40 hour week in large part for this reason.

There is one other historical factor that needs to be mentioned though it was not recognized at the time. Scattered studies support the view that a work week of 40 to 48 hours yields a greater weekly output on a sustained basis than a longer schedule. In a very real sense then the great historical reductions in working time were costless — they gave us both greater output and more leisure. But it would be hard to make a strong case that this continues to be true. Further reductions might make possible greater hourly output, particularly in industries where physical fatigue currently exists, but whether the gain would offset the loss is doubtful. In any event some offsets would have to be considered such as the greater ratio of starting time to working time, less intensive capital utilization in single shift operations, increased per hour cost of existing fringe benefits, to mention the most obvious. Though there would be some exceptions it would seem to me safe to assume that generally speaking weekly output would decline and we would be fortunate if

³A widely quoted prediction of a 32-hour work week by 1975 was offered by F. J. Dewhurst, Director of the 20th Century Fund, in a speech titled "Productivity and Consumption Trends," at the 27th Boston Conference on Distribution, October 1955, pages 19-21.

total costs per unit remained stable. This means that our problem of choice is simpler today than it was heretofore as we face more starkly the necessity of choosing between greater income or more leisure. It is not likely that we can have both.

There is another point in this historical review — that of growing man hour productivity. In brief, the record supports the view that our man hour productivity increases on the average by about 2½ per cent a year. Again, there are irregularities in the picture with highs and lows but the average picture appears to be one of steady improvement.

Automation and the Future

More important, however, are the predictions concerning the future. Some labor spokesmen have suggested that automation will usher in an era in which our rate of growth will be doubled or more. *Fortune*, in a careful survey, arrived at a more conservative but still optimistic 3 per cent annual projection for the next 25 years.⁴ These forecasts of an acceleration in our historical rate of productivity growth are worth considering on their merits and if they prove to be true the impact on our future will be staggering. But I would argue that for purposes of current decision making on such a key matter as hours of work, continued reliance on the more cautious figure of a 2½ per cent rate is appropriate. There would be nothing lost by accepting this lower figure, since we can always adjust our sights upwards. The danger arises from deciding to divide this expected surplus between greater income and increased leisure before it materializes. We run the risk of institutionalizing a shorter work week, in itself hard to change, long in advance of the time when actual income generation justifies the level in terms of our desired income-leisure choice. In other words the uncertainties of the future are such that we would be wiser to make our decisions on

the hard facts of current reality and not to allow our expectations of a rosy future to color our current decisions.

While automation on the one hand has given rise to some optimistic expectations concerning the future, it has on the other hand generated pessimistic fears concerning unemployment and job displacements. Yet to my mind these are largely spurious or at best the labeling of old and continuing problems under a new heading.

No one can seriously argue that we stand on the verge of an overnight conversion of our industrial system to automatic factories. Rather automation is more likely to come gradually and be concentrated in certain industries. Even here it will not come all at once but is more likely to affect first one industry or portion of it and then another. Since much of what is now called automation requires considerable capital investment, this means that normally its installation will be preceded by a lengthy period needed to design, manufacture and install the equipment. This means that all those immediately concerned — management, unions, and employees — will have time for working out solutions for the transition. The answers are already familiar: normal attrition, job retraining, severance pay, for example, and should be sufficient for the usual case if intelligently handled.

Automation may place some new or different stresses on our efforts to maintain full employment but does not in and of itself condemn us to failure. Provided all groups concerned, including business, continue to support the measures necessary for the maintenance of full employment, the problem need never arise. But if we falter and general unemployment returns, whatever the specific cause, then it would be inevitable that irresistible pressures would arise to reduce hours so as to spread existing work opportunity. Let me repeat that groups such as the Chamber of Commerce bear a special responsibility on this matter.

The Merits of the Case. If we con-

⁴Gilbert Burck and Sanford Parker, "Productivity: The Great age of 3%," *Fortune*, November 1955.

tinue to avoid an unemployment crisis then it will be possible to approach the shorter hours question on its merits as a clear choice between income and leisure. And if this is done then there are a number of reasons why a reduction in daily and weekly hours is not as imminent as some believe. The first set of factors concern what I call bargaining realities. Unions are not likely to agree to shorter hours unless weekly incomes are maintained. Yet a reduction from 40 to 37½ hours a week would require a 6.7 per cent increase in hourly wage rates in order to maintain weekly incomes. A reduction to 36 hours would require a 11.1 per cent increase and 35 hours would require 14.3 per cent increase.⁵ These are all sizeable increases and would absorb all or a predominant portion of the economic package forthcoming at a particular negotiation. Since there will be other claims on the package that will have to be met I would think it highly unlikely that unions will find it possible to divert a sizeable chunk to such a costly item as reduced hours. Of course, the package size might be expanded beyond that now customary, and long-term contracts may improve the chances since the size of the package divided up at one point of time is increased.

Yet even so the alternative of expanding leisure via the vacation-holiday route might prove more compatible to bargaining stresses. This route to greater leisure is more gradual and the increased costs that are faced at a single point of time are a good deal smaller. Thus it has been estimated that each additional holiday cuts the annual working time by only 0.144 hours per week, an additional vacation week reduces weekly hours on an annual basis by 0.77 and a three day weekend every two months would mean a reduction of 0.92 hours a week.⁶

The possibilities of expanding leisure in these directions do not appear to be

exhausted. Moreover, experience suggests that this alternative has proven to be extremely popular with American workers. Aside from the intrinsic advantages of having chunks of free time to devote to family projects it has the added attraction of furnishing status connotations, inasmuch as these fringes bring the worker closer to the middle-class way of life.

Possibilities and Problems. On the other hand shorter daily or weekly hours raise a number of problems that offset the apparent attractiveness. The four-day week, for example, doesn't coincide with the normal five-day weekly school schedule of children. A shorter day means that commuting time, now long for many workers, becomes greater, proportionate to working time. The most serious disadvantage, however, concerns a pressing problem about which we know little. As hours are shortened it becomes easier for the worker to hold two jobs—a situation known as moonlighting. Paradoxically the effort to reduce hours further might result in lengthening the actual work week for a significant portion of our work force. Thus we might find ourselves returning to a situation where fatigue, accident and absenteeism again become serious by-products of the length of the work week.

There are good reasons, therefore, for believing that increases in leisure may come via the vacation-holiday route and if leisure is the objective this would seem to me preferable. But there is another possibility now being discussed that may upset this prediction. Unions may approach the problem in terms of a reduction in the standard work week to 38 or 36 hours, for example, while expecting to continue on a 40 hour work week. This would convert two to four hours to overtime hours, increase payroll costs and income by 2½ to 5%. Thus the worker would get greater income and the employer might be willing to accept the change, since it opens the possibility of a significant cost saving if demand conditions force a cutback. Over a period of

⁵Seymour Brandwein, "Recent Accomplishments in Reducing Hours," *AFL-CIO Conference on Shorter Hours of Work*, op. cit., Table 5.

⁶Peter Henle, "Which Way to Greater Leisure?", *Ibid.* Appendix.

time this would, I think, have the effect of establishing a shorter work week, as such cutbacks may not be followed by movement back later to 40 hours when demand conditions improve. It would not, however, reflect a conscious desire for leisure as against income.

The Temper of Our Time

The emphasis of this paper has been upon the necessity of reaching decisions on hours of work in terms of our preference for income or leisure. Yet even this may be stating the problem too simply. Riesman and Bloomberg in a provocative article have suggested recently that workers "At a certain point, . . . seem to want to buy leisure inside rather than outside the plant."⁷ This brief comment indicates some of the hidden complexities in the leisure phenomenon about which we know too little. The traditional pressures behind the drive for leisure—to escape the onus and hazards of work and to secure time for family and other activities—no longer apply. In our consumption-minded economy leisure time activities require new consumption expenditures. At present, it seems that the need to expand income to finance the scale of activities is greater than the need for time in which to spend this income. If this view is correct, then this means that the temper of our time is one in which workers (and hence their unions) will be more income-conscious than leisure-conscious.

So far we have considered only the area of private consumption. When we turn to the social or public area the need for greater income is even more obvious. We have not eliminated poverty in our society. Vast new programs are needed to expand and upgrade our educational

system, to modernize our cities and transportation system, to rehabilitate our public parks so that they can satisfy even the present leisure needs of our people. There is a host of other social needs. It would not be extreme to suggest that in the midst of growing private abundance we face a growing social poverty. And if we lift our sights beyond our borders it might be asked whether as a prosperous and Christian nation with a reputation for generosity we are doing all we can to assist those around the world who, with meager resources, are attempting to enter the industrial age.

Still, as any legislator, federal or state, will attest, the pressures of the moment are strongest for reducing our present levels of social expenditures. Manifestly it will be easier to support needed public programs at the level political sentiment accepts provided private incomes are kept expanding. The obverse of this position was put most baldly by an AFL leader who is reported to have said, "If we get more dough, the government can take back part of it; but they haven't yet figured out a way to tax your day off."⁸

My position, put equally simply, is this: though the cause may be advocated by a great political figure, by important unions and by others of repute, now is not the time to encourage personal and collective selfishness. The needs of the moment are for all of the income we can produce, as only then can we meet the compelling challenges of our time. To take a tax-free day off now will not abolish poverty, house, educate and transport our people or bring the fruits of industrialization to the underdeveloped peoples of the world.

In other words the failure to grasp the opportunities that the coming age of abundance opens up is, I submit, a possible tragedy of the highest order.

⁷David Riesman and Warner Bloomberg, Jr., "Work and Leisure: Fusion or Polarity," *Research in Industrial Human Relations, A Critical Appraisal* (New York: Harper & Brothers, 1957), page 72.

⁸As quoted in "Labor: 1956 and Beyond", *Fortune*, January 1956, page 183.

Reading For Business And Pleasure

THE BUREAUCRATIC ETHIC

By DANIEL R. FUSFELD*

The organization man is with us. He peoples the large corporations that are the archetype of bureaucratic organization in the modern world. He is an administrator, equally at home in other bureaucracies like the government and its armed forces, educational institutions and even labor unions — organizations among which he often moves with ease and aplomb. He is, in short, a manager, or aspires to be one. It is about this organization man that William H. Whyte, Jr. has written a perceptive, angry and important book.¹

With the organization man has come a whole new pattern of values, a whole new way of thinking, that is in sharp contrast to traditional and accepted values. The old individualistic business ethic is on the way out, together with its faith in hard work, intelligence and superior skill as the requisites for success. In its place has come a new bureaucratic ethic: conform, apple polish and manipulate (the reader may wish to supply stronger language). The watchwords of the new ethic are "belongingness" and "togetherness": the individual is expected not only to function well as a group member and to subordinate his own individuality — and perhaps that of his family as well — to the needs of the group, but to like it and to make a virtue of it.

Whyte pictures an almost Faustian dilemma facing the young man of ambition. The road to success, to recognition, to high social status is no longer the acquisition of a large private fortune: tax laws and the omnipresence of giant corporations have made that event most unlikely. The path, instead, lies in a steady progression from junior executive to divisional Vice-President — or even

President if the lightning strikes — in a large, established and bureaucratic corporation. This means "working on the team," "not rocking the boat," and subordinating himself to the needs of the organization. And in turn, the organization will reward the ambitious young man with promotions, increased income, bonuses, and the greater prestige and recognition he so greatly desires. All he must do is become a true believer in *The Organization*. All he must give up is his soul.

Yet there may be a way out: Whyte advises the modern Horatio Alger hero to only appear to conform. Cheat on the personality tests, he suggests, to give the impression of being an average, conforming young bureaucrat-in-the-making. In one of the truly hilarious sections of the book, Whyte gives specific advice on how to delude the personnel men into thinking you are the organization type.

At the same time Whyte points out that such action, even if successful, is self-defeating in the end. The result is often an "executive neurosis" that stems from the collision of the old individualistic ethic with the new bureaucratic ethic. You can sell your soul to *The Organization* and be happy — or, at least, well adjusted — or you can preserve your soul and be neurotic.

This is not a red-eyed radical who is criticizing big business and its impact on the individual, but one of the system's own. Whyte is an editor of *Fortune*, the house organ of the organization man, and has worked himself up from Princeton to an important post in Time, Inc., one of the bureaucracies that stands astride the mass media industry. But he has never himself succumbed to the ideology of *The Organization*, and is known for a series of critical studies of conformity in business enterprise, suburbia, and modern life in general. He opposes the values of

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¹*The Organization Man* (Simon and Schuster, 1956), reprinted in a soft cover edition by Doubleday Anchor Books, 1957.

bureaucracy just as the aristocrats in eighteenth century England disdained the acquisitive values of the rising capitalist middle class and industrialist.

After a discussion of the organization man's way of life — his education, his literature, his home life — Whyte makes an eloquent plea for the individual:

He must *fight* The Organization. Not stupidly or selfishly, for the defects of individual self-regard are no more to be venerated than the defects of co-operation. But fight he must, for the demands of his surrender are constant and powerful, and the more he has come to like the life of organization the more difficult does he find it to resist these demands, or even to recognize them. It is wretched, dispiriting advice to hold before him the dream that ideally there need be no conflict between him and society. There always is; there always must be.

But is rebellion the answer? After all, the rebellious hero of George Orwell's *1984* ended up by loving Big Brother.

There is a third choice. We need not necessarily submit to The Organization, nor fight it. The task before us is nothing less than building democratic procedures, and safeguards for individuality, into the structure of bureaucracy. Large organization is part of our everyday lives largely because it is more efficient in doing the jobs that have to be done than other forms of administration. If we wish to obtain its benefits, we must accept bureaucratic hierarchies, clearly defined tables of organization, and recognized patterns of authority and responsibility. We must also accept the new social classes — the managers and the white collar employees — that have come with it. The great challenge is how to engineer the large organization so that the individual does not get lost and the decision-making process is democratic. What is needed is a system of constitutional government

within the business and government bureaucracies analogous to the systems that labor unions have brought into the production departments, with their grievance procedures, seniority systems and the like. Arrangements like the tenure systems of our educational institutions might well be adapted to private industry. Even something as simple as conflicting rules and incomplete enforcement could give the individual greater freedom of action.²

The point is that there must be a conscious effort on the part of social scientists and students of administration to do this, for it is all too easy to fall into the trap so clearly pictured by Whyte: it is easier to mold the individual to the organization than to make the organization flexible enough to give the individual free play. Yet if we fail in this task we will find ourselves the victims of a pleasant, prosperous and insidious authoritarianism.

This is an important book, one to be read along with C. Wright Mills' *White Collar* and David Riesman's *The Lonely Crowd* for a picture of the ways in which our society, its values, and its ethics are changing. It poses clearly the problem of preserving individuality in a society of large organizations. And if the diagnosis is more perceptive than the prescription, we are at least made aware of a fundamental problem: how can we so engineer our huge bureaucratic organizations to give the greatest possible scope to the individual?

²In his paper on p. 7 of this issue, Dr. Andrew G. Frank of the Economics Department at Michigan State University has pointed out that in the administration of industry in the Soviet Union conflicting standards and their selective enforcement permits plant managers to act flexibly and with initiative in spite of what appears to be a highly restrictive environment for decision-making. See also his article, "The Organization of Economic Activity in the Soviet Union," *Weltwirtschaftliches Archiv*, Vol. 78, No. 1 (1957), pp. 104-156, esp. pp. 126-131.

Books In Brief

Levin, Howard S. *Office Work and Automation*. New York, John Wiley & Sons, 1956. An office is more than a walled space occupied by pretty girls, typewriters, file cases, and ledger cards. It is a center for information handling and "will exist wherever information is collected, processed, or used in the administration of business affairs." Using this as a premise, the author examines the equipment and scientific techniques that are vital to the success of the office in modern business.

Morgan, Alice B. *Investors' Road Map*. New York, Simon and Schuster, 1956. A very readable volume by a lady who leaped to national fame during her celebrated appearances on "The \$64,000 Question" television program. Through years of teaching investment classes in Bristol, Rhode Island, Mrs. Morgan's efforts have met with great success because of her wide knowledge and ability to put the subject across. She has shown the same ability in writing this book.

Nevins, Allan and Frank Ernest Hill. *Ford: Expansion and Challenge, 1915-*

1933. New York, Charles Scribner, 1957. The second volume of the projected biography of Henry Ford and the Ford Motor Company. Volume one carried the history to 1915, and this volume takes the story to 1933. Here we learn of the Peace Mission, The Dodge suit, the development of the Rouge Plant, the rise of the Chevrolet automobile and the Chrysler Corporation, and the downfall of the Model T. It is all presented in an extremely interesting style, and once you get started it is hard to lay the book aside.

Rayfield, Stanley. *Life Photographers: Their Careers and Favorite Pictures*. New York, Doubleday, 1957. "Without pictures there would be no magazine called Life; and without photographers there would be no pictures." Everyone who reads Life at one time or another probably wonders who makes the pictures. Now we can find out. Not only are their careers described, but each photographer is represented by several pictures.

W. S. S.

FIRST STEPS IN BANKING

By J. B. BOOTHROYD*

The following dialogue, printed in the April 3, 1957 issue of the world's oldest and most illustrious magazine of humor, has been enjoying a word-of-mouth popularity of recent months. Business Topics reprints it in full for the pleasure of its readers, and thanks the editors of Punch for making the article available to us.

Q. What are banks for?

A. To make money.

Q. For the customers?

A. For the banks.

Q. Why doesn't bank advertising mention this?

A. It would not be in good taste. But it is mentioned by implication in references to Reserves of £249,000,000 or thereabouts. That is the money they have made.

Q. Out of the customers?

A. I suppose so.

Q. They also mention Assets of £500,000,000 or thereabouts. Have they made that too?

A. Not exactly. That is the money they use to make money.

Q. I see. And they keep it in a safe somewhere?

A. Not at all. They lend it to customers.

Q. Then they haven't got it?

A. No.

Q. Then how is it Assets?

A. They maintain that it would be if they got it back.

Q. But they must have some money in a safe somewhere?

A. Yes, usually £500,000,000 or thereabouts. This is called Liabilities.

Q. But if they've got it, how can they be liable for it?

A. Because it isn't theirs.

Q. Then why do they have it?

A. It has been lent to them by customers.

Q. You mean customers lend banks money?

A. In effect. They put money into their accounts, so it is really lent to the banks.

Q. And what do the banks do with it?

A. Lend it to other customers.

Q. But you said that money they lent to other people was Assets?

A. Yes.

Q. Then Assets and Liabilities must be the same thing?

A. You can't really say that.

Q. But you've just said it. If I put £100 into my account the bank is liable to have to pay it back, so it's Liabilities. But they go and lend it to someone else, and he is liable to have to pay it back, so it's Assets. It's the same £100, isn't it?

A. Yes. But —

Q. Then it cancels out. It means, doesn't it, that banks haven't really any money at all?

A. Theoretically —

Q. Never mind theoretically. And if they haven't any money where do they get their Reserves of £249,000,000 or thereabouts?

A. I told you. That is the money they have made.

Q. How?

A. Well, when they lend your £100 to someone they charge him interest.

Q. How much?

A. It depends on the Bank Rate. Say five and a half per cent. That's their profit.

Q. Why isn't it my profit? Isn't it my money?

A. It's the theory of banking practice that —

Q. When I lend them my £100 why don't I charge them interest?

A. You do.

Q. You don't say. How much?

A. It depends on the Bank Rate. Say half a per cent.

*Reprinted by permission of Punch.

Q. Grasping of me, rather?

A. But that's only if you're not going to draw the money out again.

Q. But of course I'm going to draw it out again. If I hadn't wanted to draw it out again I could have buried it in the garden, couldn't I?

A. They wouldn't like you to draw it out again.

Q. Why not? If I keep it there you say it's a Liability. Wouldn't they be glad if I reduced their Liabilities by removing it?

A. No. Because if you remove it they can't lend it to anyone else.

Q. But if I wanted to remove it they'd have to let me?

A. Certainly.

Q. But suppose they've already lent it to another customer?

A. Then they'll let you have someone else's money.

Q. But suppose he wants his too — and they've let me have it?

A. You're being purposely obtuse.

Q. I think I'm being acute. What if everyone wanted their money at once?

A. It's the theory of banking practice that they never would.

Q. So what banks bank on is not having to meet their commitments?

A. I wouldn't say that.

Q. Naturally. Well, if there's nothing else you think you can tell me . . . ?

A. Quite so. Now you can go off and open a banking account.

Q. Just one last question.

A. Of course.

Q. Wouldn't I do better to go off and open a bank?



The Paris label has lost none of its glamour in the air age, according to a Twentieth Century Fund report which notes that loads of hats are flown to Paris from neighboring countries for stamping and labeling, and then reflown to the points of origin.



A progressive income tax was levied as long ago as the days of ancient Athens during the Peloponnesian war, notes a new Twentieth Century Fund study.

HONOR TO WHOM HONOR IS DUE

One of the uses of literature, though certainly not the chief one, is the throwing of light upon social history. Given a writer like Thackeray, who was so deeply aware of the society about him, the student unearths many and many a remark upon the life of his times that may echo strangely at the present. In his *Roundabout Papers*, a series of essays he composed as editor of the *Cornhill Magazine*, the great novelist is discussing whether or not an order (corresponding to the later Order of Merit) should be established to give recognition to citizens who made important contributions to the culture of their nation. Here is an excerpt from the essay "On Ribbons", printed in 1859 or 1860.

Fancy the claimants, and the row about their precedence! Who shall decide on them? Say, ingenuity and cleverness are to be rewarded by State tokens and prizes, who shall have them? A great philosopher? No doubt we cordially salute him. A great historian? Of course. A great engineer? A great poet? Received with acclamation. A great painter? Oh! certainly. . . But if a poetic, pictorial, a story-telling or music-composing artist, why not a singing artist? Why not a first tenor? And if a singer, why not a ballet-dancer? A chemist puts in his claim for having invented a new color; an apothecary for a new pill; the cook for a new sauce; the tailor for a new cut of trousers. Stars and garters! Can we go any further?

The industrial chemist will see the point immediately: two or three years before this was written, a young chemist (18-year-old William Henry Perkin) had invented mauve, the first aniline dye, thus opening the age of industrial chemistry. It would not be too much to say that this industry has had fully as great a part in transforming the face of civilization as has any other in our time. It would not be too much to say that Thackeray's England could not have survived through two World Wars without it. The inventor of a new color? Rather, the founder of an industry that produced a total of 1,240 million pounds sterling worth of products and materials in the United Kingdom in 1955.¹ How important does a man have to be to receive a medal for distinguished service to his country?

Though Thackeray may not have realized the significance of chemical contributions to a nation's well-being, fortunately Queen Victoria's consort, Prince Albert of Saxe-Coburg, did. It was he who was the moving force behind the establishment of the Royal Academy of Science, where Perkin received his training. Moreover, recognition did come to Perkin twenty years after "On Ribbons" was written: he received a medal from the Royal Society, many other honors, and finally was knighted in 1906. That same year he also visited America, and was awarded the first impress of the Perkin Medal, this country's greatest honor in his own field.

A.C.G.

¹Our thanks to the Dow Chemical Company for this figure, representing that year's total product turnover.

WHY INVENT ANYTHING?

It seems that one way to get your name lost to fame is to put it to some project, invention or development of your own. How many of us think of a macadam road, a daguerreotype or a silhouette as being by rights the bearers of their inventors' names? We have been pondering these unsung heroes of ingenuity and have turned up quite a collection of them.

The artificial leg known as a cork leg is not made of cork. It was the development of a Dr. Cork. The snow apple is not so called because of its delicate white flesh, though it might as well be. A Mr. Snow perfected it. As for plums, the familiar greengage should be known as the green Gage, for Sir William Gage who introduced it to England in 1759. Mr. Seckel's succulent pear, surely the best of fruits, has become the sickel pear to most people. And Clarence Birdseye, the developer of frozen foods, was on his way to similar oblivion in the popular imagination even before his recent death; ask the next acquaintance you meet if he has heard of this inventor, and he will laugh. Who, finally, associates the name of J. T. Thompson with the Tommy gun?

The list could be longer. But one has to take care in assembling it: there are instances like *case knife*, which is not named after the Case Cutlery Company, but has meant, for over two hundred years, a table knife kept in a box.

Can any reader offer more names for the roster of Buried Inventors?¹

¹As we go to press, a colleague reminds us of the redoubtable Mrs. Amelia Bloomer and her costume.

A teacher affects eternity. . . He can never tell where his influence stops.

Henry Adams

CURRENT BUSINESS CONDITIONS

JOHN H. HOAGLAND*

The current business recession continues its downward course, with indications that further declines will occur. Possibly the steepest rates of decline have been passed and future month-to-month drops may not be as great as those of recent months. With the federal government taking many steps and planning others to stop the business decline, it is ironical that many costs and prices persist in their inflationary rise. Definite signs of improvement will be looked for in the events of this spring, but already the threats of major strikes complicate the problems of accurate business analysis.

It was just a short four months ago that this series of articles stated: "The early stages of a business recession have already occurred." At that time some regarded this statement as unrealistic and unduly pessimistic. Since then the full force of a serious recession has been felt by many. However some costs and prices still are climbing, the threat of inflation persists and plagues current business conditions. A brief review of these conditions is given below.

Production Activities

Industrial Production, as measured by the Federal Reserve's seasonally adjusted index, continues to decline at about the same rate. From January through September, 1957, this index showed a total variation of only three points. Since then it has dropped almost three points every month as indicated below:

Month	Index	Month	Index
September	144	December	136
October	141	January	133
November	139	February	130

(estimated)

Barron's Weekly Index of physical volume of business, adjusted for seasonal and long-term growth trends, shows this continued declining activity:

Week Ending	Barron's Index
Jan. 4.....	90.0
Jan. 11.....	90.2
Jan. 18.....	89.9
Jan. 25.....	88.2
Feb. 1.....	87.3
Feb. 8.....	86.2
Feb. 15.....	85.4
Feb. 22.....	83.1
Mar. 1.....	85.9

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Steel Production continues to show disappointing results. During the first two months of 1958 it was as follows:

<i>Week Ending</i>	<i>Index 1947-49 = 100</i>	<i>% of Rated Capacity</i>
January 4	93.4	55.6
January 11	94.3	56.1
January 18	95.7	57.0
January 25	93.1	55.4
February 1	90.8	54.1
February 8	90.7	54.0
February 15	90.0	53.5
February 22	85.5	50.9
March 1	88.7	52.8

Automobile Production, an item especially important to Michigan, has dropped considerably, February production being the lowest February since 1952. During the first two months of 1958 it was down 27% below the same period of 1957. With automobile inventories continually climbing, sales lagging, and unemployment increasing, automobile production is expected to decline further in the months ahead. So far in 1958 it compares with 1957 as follows:

<i>Week Ending</i>	<i>1958</i>	<i>1957</i>	<i>% Change from 1957</i>
January 4	76,616	147,121	-47.9
January 11	120,184	145,894	-17.6
January 18	109,761	145,191	-24.4
January 25	107,400	140,411	-23.5
February 1	104,448	147,162	-29.0
February 8	109,028	145,845	-25.2
February 15	101,657	138,938	-26.8
February 22	89,977	140,341	-35.8
March 1	91,608	140,162	-34.6

Railroad Carloadings, a usually reliable business indicator, show definite evidence of the continuing decline as follows:

<i>Week Ending</i>	<i>% Change from 1957</i>	<i>% Change from Preceding Week</i>
January 4	-15.9	-22.8
January 11	-16.4	+20.7
January 18	-12.9	+ 0.5
January 25	-17.3	- 3.8
February 1	-15.1	0.0
February 8	-20.0	- 3.3
February 15	-21.1	+ 0.2
February 22	-21.4	- 7.7
March 1	-21.4	+12.4

Electrical Output fell below the rate of a year ago, then climbed during the "deep freeze" of February. This index, which "normally" is 10% above the preceding year, is again falling.

<i>Week Ending</i>	<i>% Change from 1957</i>
January 4	+0.2
January 11	+1.5
January 18	-1.2
January 25	-0.1
February 1	-0.7
February 8	+2.2
February 15	+3.9
February 22	+3.5
March 1	+0.1

Construction activity began to show a decided decline in January as construction contracts fell 10% below a year ago after a 4% drop in December. Leading the decline was a drop of 53% in industrial facilities. Single-family units dropped 4% below a year ago January.

The declining orders for structural steel are indicative of heavy construction activity. For the past year they were as follows:

<i>Month</i>	<i>% Change from Year Ago</i>
January 1957	-27
February	-20
March	-21
April	-5
May	-18
June	-35
July	-30
August	-38
September	-21
October	-39
November	-45
December	-69
January 1958	-49

Consumption Activities

Department Store Sales, by the end of February, dropped five per cent below the first two months of 1957. Part of this drop can be attributed to the bad weather of February and part to increasing consumer resistance. Weekly data has been as follows:

<i>Week Ending</i>	<i>% Change from 1957</i>
January 4	+2
January 11	+1
January 18	+2
January 25	-3
February 1	-2
February 8	-8
February 15	-6
February 22	-18
March 1	+1

Chain Store Sales, as measured by a *Wall Street Journal* survey, continued to show month-to-month sales gains, due in part to price increases. Preliminary information indicates, however, a lower increase in prospect for February:

	Percentage Change from Year Earlier		
	January	December	Year 1957
Variety	+ 3.0	0.0	+ 2.0
Grocery	+10.2	+ 9.1	+10.0
Mail Order	- 0.7	+ 1.1	+ 3.0
Women's Wear	+ 2.2	+ 2.4	+ 6.3
Men's Wear	- 9.6	- 6.8	- 2.1
Shoes	+ 6.6	+ 5.5	+ 7.1
Auto Accessory	+11.2	+ 4.3	+ 5.5
Junior Dept. Store	+ 4.6	+ 2.2	+ 2.7
Drugs	+14.0	+10.6	+11.6
Furniture	-14.1	- 1.8	- 1.8
Total	+ 5.7	+ 3.5	+ 5.8

Paperboard new orders and order backlogs continue to indicate lower activity than a year ago. Some of the apparently erratic performance of this index is due to the tendency for new orders to increase the first week of every month.

Week Ending	Paperboard (Thousand Tons)			
	New Orders		Order Backlog	
	1958	1957	1958	1957
January 4	102.3	90.0	415.0	454.4
January 11	264.4	298.3	402.9	475.5
January 18	255.7	237.4	377.7	430.3
January 25	236.7	234.9	348.3	380.7
February 1	241.8	370.6	340.8	471.7
February 8	309.9	265.9	395.8	450.2
February 15	238.5	219.4	373.5	395.8
February 22	230.0	245.9	330.5	370.9
March 1	289.4	350.8	363.0	454.3

Automobile Sales for 1958 are extremely disappointing. At their present rate of sales they indicate a yearly sales rate of about 4.5 million units. This is far short of the earlier predictions of 6 million units. With inventories continuing to climb to an estimated 900,000 units, further production cutbacks are being made. Sales drives and some price cutting have so far done little to improve sales. With the used car market also sagging many potential consumers appear to be turning either to used cars or the lower priced new cars.

Machine Tool Orders dropped further in December, then picked up slightly in January. In December they fell to \$18.6 million, the lowest rate since October, 1949, and a drop of 34% below November, 1957. In January, 1958, new orders picked up 4% to \$19.3 million but this was down 69% below January, 1957.

Inventories are being liquidated at an increasing rate. This overdue action is now aggravating the present business decline and will continue to do so until

further liquidation is carried out. In recent months the rate of liquidation in millions of dollars has been November 400, December 300, and January 700. On a seasonally adjusted basis the data for manufacturers in terms of billions of dollars is:

	January 1958	December 1957	November 1957
Inventories	52.9	53.6	53.9
Sales	26.3	26.7	27.2
New Orders	24.3	25.2	26.1

Unfilled orders on a seasonally unadjusted basis dropped \$1.5 billion in January and were down \$15 billion from January, 1957.

Unemployment continues to rise nationally with an estimated 5,100,000 unemployed as of February 15. This was an increase of 600,000 since January 15 and a total increase of 1,700,000 since December 15. In Michigan unemployment was 350,000 on February 15, amounting to 12% of the labor force. The increase between January 15 and February 15 was 34,000.

Prices continue to rise with the Bureau of Labor Statistics latest weekly index of wholesale prices being 119.2%, an increase of 0.4% above the January average. The "cost of living" index jumped 0.7% in January to 122.3, an all time high. Thus this index has risen 4.1 points in the past year. These rises indicate that inflationary threats are still a serious problem to business.

Summary

The effects of the recession are being felt in many sectors of business. Many measures of production activities continue to show cutbacks. The Federal Reserve Board Index, Barron's Weekly Index, steel production, automobile production, and railroad carloadings all show considerable declines over the same period a year ago. Construction activity has also begun to show a downturn. For production activities there is very little chance of an immediate upturn. The best that can be realistically hoped for is that the steepest rates of decline have been passed and future declines will be smaller on a month-to-month basis.

Consumption activities in staple items are not dropping as rapidly as production, as usually happens in a recession. Sales of items such as automobiles and machine tools have been hit severely, however, and as yet show no pronounced signs of improvement. Meanwhile inventories are being liquidated and unemployment is increasing but prices indexes are still not dropping. The recession has become a serious one while inflation also continues to be a dangerous factor.

MICHIGAN BUSINESS STATISTICS

Bank Debits

City	Bank Debits (Thousands of \$'s)		Percent Change from Previous Year	
	Dec. '57	Jan. '58	Dec. '57	Jan. '58
Adrian	29,406	29,645	+2.7	- 2.0
Battle Creek	78,993	80,176	+5.9	+ 6.0
Bay City	61,739	59,969	+6.7	+ 1.1
Detroit	6,789,454	6,441,384	-2.6	-11.2
Flint	181,244	173,219	-0.2	+ 3.9
Grand Rapids	345,749	337,688	+1.8	- 2.7
Jackson	103,087	99,087	+5.4	- 4.3
Kalamazoo	172,746	171,101	+5.9	+ 4.7
Lansing	153,805	160,731	+2.1	+ 3.6
Muskegon	97,785	99,713	+6.9	+ 1.1
Port Huron	42,237	41,770	-4.9	- 5.2
Saginaw	135,554	125,346	-1.9	- 3.0
Escanaba	13,699	13,958	+5.1	+ 9.4
Marquette	14,206	13,709	-2.0	+ 0.6
Sault Ste. Marie	11,139	10,740	+2.4	- 0.6

Sources: Federal Reserve Banks of Chicago and Minneapolis and Board of Governors of the Federal Reserve System

Department Store Sales

	November '57		December '57		Percent Change Year 1957 vs. 1956
	Percent Change from Oct. '57	Nov. '56	Percent Change from Nov. '57	Dec. '56	
Battle Creek	+12	- 5	+38	- 2	+ 1
*Detroit	+18	- 7	+35	- 2	- 1
*Flint	+21	-12	+46	- 8	-10
*Grand Rapids	+21	- 8	+48	- 5	- 6
*Jackson	+ 9	-12	+60	- 5	- 3
*Kalamazoo	+24	-11	+45	- 9	-10
*Lansing	+17	- 6	+53	- 3	- 1
*Muskegon	+12	- 8	+51	- 8	- 6
*Port Huron	+26	- 6	+49	- 5	+ 1
*Saginaw	+13	- 9	+28	- 7	- 5
*Metropolitan Areas					

Source: Federal Reserve Bank of Chicago

Electric Sales in Kilowatt Hours for State of Michigan

	Thousands of KWH Sales		Percent Change from Previous Year	
	Nov. '57	Dec. '57	Nov. '57	Dec. '57
Residential	615,971	662,730	+13.3	+8.9
Commercial	352,084	360,921	+ 9.6	+5.4
Industrial	931,829	883,695	- 3.1	-4.9

Source: Edison Electric Institute

Passenger Car Factory Sales in United States during 1957

January	610,678	July	474,634
February	556,930	August	513,290
March	569,242	September	315,008
April	526,310	October	282,510
May	522,759	November	560,141
June	484,840	December	536,369

Source: Automobile Manufacturers Association
(Estimated car sales for 1958 are: January, 381,000; February, 321,000)

